

STATEMENT OF PURPOSE

RS18894

This bill updates references to the Internal Revenue Code (IRC) not included in the annual conformity bill (H.B. 64aa). The bill will conform the Idaho Income Tax Act to changes made to the IRC after January 1, 2009 and before February 19, 2009. The effect is to conform to the provisions of the federal stimulus bill, HR1, The American Recovery and Reinvestment Act to the extent those changes affect Idaho taxable income.

FISCAL NOTE

The provisions of "The American Recovery and Reinvestment Act (ARRA) establish the following temporary tax incentives that will affect Idaho taxable income:

1. Suspends income tax on the first \$2,400 of unemployment benefits per recipient received during calendar year 2009.
2. Increases the standard deduction by the sales and excise taxes paid on new cars, light trucks, recreational vehicles and motorcycles purchased between 2/17/09 and 12/31/09, with limitations.
3. Extends the elections for bonus depreciation and increased Section 179 deduction. This allows the taxpayer to accelerate deductions for depreciation on assets purchased during calendar year 2009. It will reduce income tax revenues in FY 2010 and 2011, but these reductions will be offset by revenue increases (due to less depreciation deductions) in FY 2012-2016. Because amounts deducted under these provisions do not qualify for the Idaho investment tax credit, the net effect is an increase in revenues to the state.
4. Defers the recognition of certain cancellation of debt income.
5. Increases the exclusion from 50% to 75% for capital gains from the sale of certain small business stock held more than five years.
6. Temporarily reduces the holding period of assets with built-in gains in S corporations that were once C corporations from ten to seven years.

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NEGATIVE (POSITIVE) FISCAL IMPACT

	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012 fwd</u>	
Unemployment benefit exclusion	\$4,700,000	--	--	
Sales tax deduction for vehicles	1,680,000	--	--	
Bonus depreciation and Sec. 179	5,000,000	120,000	(7,700,000)	total over 5 yrs.
Cancellation of debt income	400,000	400,000	(800,000)	net over 7 yrs
Small business capital gains	--	--	100,000	/yr beg in FY 2015
S corporation build-in gains	<u>200,000</u>	<u>200,000</u>		
TOTALS	11,980,000	720,000		

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Statement of Purpose / Fiscal Note

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